

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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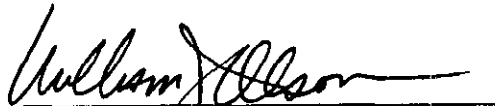
POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

RESPONSE OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
TO INTERROGATORIES
OF UNITED PARCEL SERVICE (UPS/NDMS-T2-1-14)
(February 3, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc., hereby provide the responses of witness John Haldi to the following interrogatories of United Parcel Service: UPS/NDMS-T2-1-14, filed on January 20, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

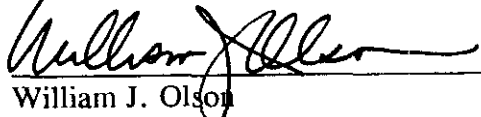


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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


William J. Olson

February 3, 1998

UPS/NDMS-T2-1.

Upon implementation of the proposed Priority Mail delivery confirmation service, will the delivery confirmation service for Priority Mail be superior to the delivery confirmation service for First Class mail?

Response:

To the extent that the new delivery confirmation service will be available for Priority Mail and will not be available as an option for First-Class Mail, such delivery confirmation service is better than no delivery confirmation service at all. Mailers have always been able to send First-Class Mail using Certified Mail, return receipt requested. Priority Mail's delivery confirmation service would be superior to that of First-Class Mail, but still inferior to that of the Postal Service's private competitors.

Response of Dr. John Haldi to UPS/NDMS-T2-2
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UPS/NDMS-T2-2.

On page 70 of your testimony (NDMS-T-2), lines 6-12, you list several features that you claim Priority Mail lacks. Please confirm that these are features that First Class mail lacks as well. Please explain any answer other than an unqualified confirmation.

Response:

Confirmed. Note that, as I point out on page 70, lines 4-5, these features are certainly not lacking in the competition to Priority Mail.

UPS/NDMS-T2-3.

Please refer to page 58 of your testimony, lines 6-19, and page 59, lines 1-5. Is it your view that the value-of-service criterion contained in 39 U.S.C. Section 3622(b)(2) refers exclusively to the actual performance of the Postal Service? Please explain your answer.

Response:

Not exclusively. The value-of-service criterion encompasses the delivery performance of the product as well as other available features (which indicate "intrinsic value of service"), such as forwarding service, to the product's elasticity of demand (which indicates "extrinsic value of service"). Nevertheless, insofar as it deals with delivery performance, actual performance is more important than stated but unachieved delivery standards.

UPS/NDMS-T2-4.

Please refer to page 58 of your testimony, lines 8 through 17 and page 59, lines 3-5. Is it your view that "high intrinsic value of service" requires an achieved performance superior to the performance of First Class letter mail? Please explain your answer.

Response:

No. However, the Postal Service's proposed cost coverage for Priority Mail was based in part on a perceived superiority over, or at least parity with, the delivery performance of First-Class letter mail. *See* USPS-T-30, p. 27. As my testimony shows, Priority Mail's delivery performance has in fact been consistently worse.

UPS/NDMS-T2-5.

Please refer to page 59 of your testimony, line 14. If the Postal Service had achieved its announced standards for Priority Mail, would it be your view that Priority Mail had a high intrinsic value of service? Please explain your reasoning.

Response:

If the Postal Service had met Priority Mail's delivery standards, the intrinsic value of service for Priority Mail would be higher than it currently is with respect to delivery performance. Likewise, if Priority Mail had some of the features of competitive private products (*e.g.*, delivery date guaranteed or money refunded, insurance included in the basic fee, track-and-trace, and reliable scheduled pickup service), its intrinsic value of service would be higher than it currently is with respect to competitive features.

UPS/NDMS-T2-6.

Please refer to page 59 of your testimony. Assume, hypothetically, that the Postal Service were to reduce its Priority Mail standards to the performance levels that you assert are currently being achieved.

- (a) Under that assumption, would the fact that the Postal Service were achieving its announced standards justify a high cost coverage for Priority Mail? Please explain your answer.
- (b) Under that assumption, would the achievement of the announced standards justify the cost coverage proposed in this case by the Postal Service for Priority Mail? Please explain your answer.
- (c) Under that assumption, would the achievement of the announced standards justify a higher cost coverage than proposed by the Postal Service in this case? Please explain your answer.

Response:

- a.- c. No. With respect to the overnight and second-day delivery standard for First-Class Mail (and the overnight standard for Priority Mail, which coincides with that for First-Class Mail), the Postal Service several years ago played the game of reducing service standards. Tinkering with service standards without actually improving performance would not change Priority Mail's value of service, and would not justify the current cost coverage, much less a higher cost coverage. In my view, this works the other way as well. That is, increasing the delivery standards without doing anything to improve the actual performance level would not justify a higher (or lower) coverage.

UPS/NDMS-T2-7.

If the Postal Service had no announced standards for Priority Mail, would that eliminate the problems of applying the value-of-service pricing criterion that you assert to exist? Please explain your answer.

Response:

No. The first problem in applying the value-of-service criteria is that actual delivery standards do not correlate to stated delivery standards. A second and major problem in applying the value-of-service criteria is the lack of independently gathered end-to-end performance data for Priority Mail. Eliminating service standards would highlight the urgent need for such data and, until such data became available, would make evaluation of Priority Mail performance and value of service more, not less, difficult.

UPS/NDMS-T2-8.

Please refer to page 59, line 12, of your direct testimony, where you assert that many customers consider Priority Mail a three-day service.

- (a) What evidence do you have to support your view?
- (b) Assume that customers do view Priority Mail as a three-day service. Does that mean that customers do not view Priority Mail to be a valuable mail offering? Please explain your answer.
- (c) On page 71, footnote 80, you note that Priority Mail volume, from 1995 to 1996, grew faster than the growth in the comparable service offerings of competitors. How, if at all, is the growth of Priority Mail volume related to your view that many customers consider Priority Mail to be a three-day service? Please explain your answer.

Response:

- a. Conversations with clients sponsoring this testimony and with other large users of Priority Mail.
- b. No. Many of the customers who use a Postal Service product billed as "Priority" Mail undoubtedly value consistency and speed of delivery. For such customers, a three-day service is more valuable than a less expedited service (such as parcel post) and less valuable than delivery service that is more consistent and/or more expedited (such as FedEx or UPS 2nd Day Air).
- c. Many factors other than delivery performance can affect growth, most notably rates for Priority Mail and competitors' products.

UPS/NDMS-T2-9.

Please refer to page 63, lines 19 and 20 of your testimony. What is the evidence that leads you to conclude that one-third of Priority Mail is handled as First Class Mail.

Response:

Witness Moden, in response to APMU/USPS-T33-13(d) (Tr. 11/5641), as cited at page 63, line 17, footnote 66 of my testimony, said that 33 percent of pieces bearing postage for Priority Mail were not identified in FY 1997. In Docket No. R94-1, the Postal Service provided through discovery a Memorandum for Area Managers, Processing & Distribution Area Managers, Customer Services, dated May 10, 1993, from Stephen E. Miller (Tr. 11/5642). In this memorandum, the field was advised that non-identified Priority Mail, other than Priority Mail received in bulk, need not be treated as Priority Mail. This was testified to by witness Foster in Docket No. R94-1 in response to AMPU/USPS-T11-14(c), and was again acknowledged to be accurate by witness Moden in this docket. (Tr. 11/5640).

UPS/NDMS-T2-10.

If you are correct that "Priority Mail ... suffered far more inconsistent and unreliable service than did First Class Mail" (page 62, lines 2 and 3 and page 63, lines 12 and 13), would it follow that handling Priority Mail as First Class Mail (page 62, lines 19-20) would improve Priority Mail performance and increase its intrinsic value, as you define "intrinsic value"?

Response:

As worded, the question is difficult to answer. If Priority Mail were to be handled as First-Class Mail, as the question posits, I do not have the means to predict what the outcome would be. The operational result might be to degrade the service received by First-Class Mail, rather than improve the service performance of Priority Mail.

If, hypothetically, Priority Mail performance were to improve to the point where such performances equaled that received by First-Class Mail (however achieved), then in my opinion the improvement in performance would enhance the value of service.

UPS/NDMS-T2-11.

Please refer to pages 67 and 68 of your testimony. Is it a fair understanding of your testimony that the PMPC network will degrade actual Priority Mail performance and increase Priority Mail costs relative to Priority Mail performance and cost without the PMPC network? Please explain your answer.

Response:

Lest there be any misunderstanding, it is not my testimony that the **purpose** of the PMPC network is to degrade service and increase cost. With respect to its effects, the network is not even fully installed, hence "the jury is still out." However, it **may** have the effect of both increasing costs and degrading service. For a discussion of how the PMPC network will not improve, and may actually degrade, Priority Mail performance, please refer to my response to USPS/NDMS-T2-2(a). The Postal Service increases cost attributions to Priority Mail by \$265 million due to the PMPC contract, while only finding \$127 million in direct cost reductions, for a net increase in cost of \$138 million. See my testimony, pages 74 and 75.

UPS/NDMS-T2-12.

Are you arguing, on pages 67 through 69 of your testimony, that the Postal Service should not have entered into the PMPC contract? Please explain your answer.

Response:

It remains to be seen what the result will be and whether this was a sound decision. I have explained how, at least in the short run, which includes the test year in this docket, the PMPC network will surely increase costs and likely degrade performance. Implementation of the PMPC network should certainly not be counted among the justifications for a high cost coverage on Priority Mail.

UPS/NDMS-T2-13.

If the Postal Rate Commission were to set a low cost coverage for Priority Mail on the basis of your analysis contained on pages 67 through 69 of your testimony, would the Commission be substituting its management judgement for that of the Postal Service with respect to the operational arrangements for providing Priority Mail Service?

Response:

No. Although I am not a lawyer, the development of cost coverages based on the 39 U.S.C. §3622(b) criteria would clearly appear to be within the Postal Rate Commission's discretion. Further, value of service is one of the statutory criteria which must be examined by the Commission. The existence of the PMPC contract should not be used as a basis to support a high coverage level, as stated in my testimony at page 69, lines 4 through 8.

Response of Dr. John Haldi to UPS/NDMS-T2-14
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UPS/NDMS-T2-14.

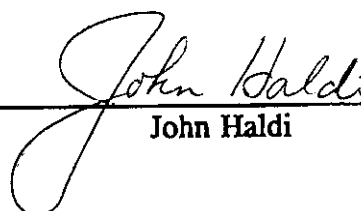
Please refer to page 71, footnote 80, where you note that, from 1995 to 1996, the growth of Priority Mail exceeded the growth rate of comparable services offered by its competitors. Assume for purposes of this question that this higher-than-competitors' growth rate were a reversal of the trend you discussed. On that assumption, what would be the implications for the cost coverage of Priority Mail?

Response:

If, over time, it were to be established that the steady deterioration of market share has in fact stopped and the declining trend has been reversed, that fact by itself would support a higher cost coverage, just as the continued erosion of market share which has been documented in this docket indicates the appropriateness of a lower cost coverage.

DECLARATION

I, John Haldi, declare under penalty of perjury that the foregoing answer is true and correct to the best of my knowledge, information and belief.



John Haldi

Dated: February 3, 1998